

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>South Haven Community Hospital</u>	County Van Buren County
Audit Date June 30, 2004	Opinion Date August 13, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 West Michigan Avenue, Suite 500	City Battle Creek	State MI	ZIP 49017
Accountant Signature <i>Plante & Moran, PLLC</i>			

South Haven Community Hospital Authority

Financial Report

June 30, 2004

South Haven Community Hospital Authority

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Independent Auditor's Report

To the Board of Trustees
South Haven Community Hospital Authority

We have audited the accompanying statement of net assets of South Haven Community Hospital Authority as of June 30, 2004 and 2003, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Haven Community Hospital Authority at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a Management's Discussion and Analysis which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of the basic financial statements.

Plante & Moran, PLLC

August 13, 2004

South Haven Community Hospital Authority

Statement of Net Assets

		June 30	
		2004	2003
Assets			
Current Assets			
Cash and cash equivalents (Note 2)		\$ 2,628,450	\$ 913,562
Assets limited as to use (Notes 2 and 3)		967,191	70,170
Accounts receivable (Note 4)		2,405,784	2,071,799
Other current assets		503,644	547,810
Total current assets		6,505,069	3,603,341
Assets Limited as to Use (Notes 2 and 3)		11,177,421	13,793,591
Capital Assets , net (Note 5)		14,899,379	9,500,083
Total assets		\$ 32,581,869	\$ 26,897,015
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt (Note 8)		\$ 473,333	\$ 368,600
Accounts payable		928,399	851,134
Construction payable		466,896	-
Accrued liabilities (Note 6)		1,589,560	1,275,133
Cost report settlements payable (Note 7)		1,945,683	1,873,318
Total current liabilities		5,403,871	4,368,185
Long-term Debt (Note 8)		6,626,667	2,025,201
Total liabilities		12,030,538	6,393,386
Net Assets			
Invested in capital assets - Net of related debt		7,799,379	7,106,282
Restricted for debt service		-	170,170
Restricted for specific purposes		200	2,000
Unrestricted		12,751,752	13,225,177
Total net assets		20,551,331	20,503,629
Total liabilities and net assets		\$ 32,581,869	\$ 26,897,015

South Haven Community Hospital Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$3,055,122 in 2004 and \$2,891,020 in 2003)	\$ 22,107,264	\$ 20,743,066
Other operating revenue	<u>104,656</u>	<u>123,381</u>
Total operating revenue	22,211,920	20,866,447
Operating Expenses		
Salaries	10,050,551	8,797,210
Employee benefits	2,195,548	2,008,814
Professional fees	1,471,577	2,784,438
Food, drugs and supplies	3,370,897	3,049,155
Utilities, communication and maintenance	832,608	829,099
Depreciation	1,636,723	1,357,577
Other	<u>2,848,193</u>	<u>3,167,851</u>
Total operating expenses	<u>22,406,097</u>	<u>21,994,144</u>
Operating Loss	(194,177)	(1,127,697)
Nonoperating Income , Net (Note 11)	<u>241,879</u>	<u>874,556</u>
Increase (Decrease) in Net Assets	47,702	(253,141)
Net Assets - Beginning of year	<u>20,503,629</u>	<u>20,756,770</u>
Net Assets - End of year	<u>\$ 20,551,331</u>	<u>\$ 20,503,629</u>

South Haven Community Hospital Authority

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 18,790,522	\$ 19,021,589
Cash paid to suppliers and employees	(17,338,394)	(18,109,497)
Other receipts from operations	104,656	123,381
Net cash provided by operating activities	1,556,784	1,035,473
Cash Flows from Noncapital Financing Activities		
Donations and other receipts	45,112	24,708
Tax levies collected	316,145	301,530
Net cash provided by noncapital financing activities	361,257	326,238
Cash Flows from Capital and Related Financing Activities		
Proceeds from sales of property and equipment	-	1,940
Purchase of property and equipment	(6,648,379)	(2,658,959)
Repayment of long-term debt	(2,393,801)	(356,500)
Issuance of long-term debt	7,100,000	-
Interest paid on long-term debt	(205,421)	(131,880)
Net cash used in capital and related financing activities	(2,147,601)	(3,145,399)
Cash Flows from Investing Activities		
Increase in assets limited as to use	(674,931)	(2,979,874)
Income received from investments	495,194	579,994
Purchase of investments securities	2,906,337	-
Rental receipts, net of expenses paid	14,869	2,985
Net cash provided by (used in) investing activities	2,741,469	(2,396,895)
Net Increase (Decrease) in Cash and Cash Equivalents	2,511,909	(4,180,583)
Cash and Cash Equivalents - Beginning of year	1,083,732	5,264,315
Cash and Cash Equivalents - End of year	<u>\$ 3,595,641</u>	<u>\$ 1,083,732</u>
Cash and Cash Equivalents (Note 2)		
Current assets	\$ 2,628,450	\$ 913,562
Assets limited as to use	967,191	170,170
Total	<u>\$ 3,595,641</u>	<u>\$ 1,083,732</u>

South Haven Community Hospital Authority

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2004	2003
Reconciliation of Operating Loss to Net Cash from Operating Activities:		
Operating loss	\$ (194,177)	\$ (1,127,697)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,636,723	1,357,577
Provision for bad debts	3,055,122	2,891,020
(Increase) decrease in assets:		
Accounts receivable	(3,389,107)	(1,791,018)
Other current assets	(15,834)	(303,236)
Increase (decrease) in liabilities:		
Accounts payable	77,265	(30,244)
Accrued liabilities	314,427	(30,470)
Cost report settlements payable	72,365	69,541
Net cash provided by operating activities	\$ 1,556,784	\$ 1,035,473

Significant noncash investing, capital and related financing activities are as follows:

Medical office building rent, net includes an allocation of depreciation expense amounting to \$36,000 in 2004 and 2003.

The net increase (decrease) in fair value of investments for years ended June 30, 2004 and 2003 amounted to (\$284,764) and \$200,976, respectively.

A loss on disposal of assets for the years ended June 30, 2004 and 2003 amounted to \$43,256 and \$67,757, respectively.

During the year ended June 30, 2004, the Hospital wrote off \$60,000 of a previously recorded other asset, which is included in other nonoperating expenses.

Included in capital assets at June 30, 2004 is \$466,896 of construction in progress financed by accounts payable.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - The Hospital operates a short-term, acute-care facility offering inpatient and outpatient healthcare services primarily to the citizens of South Haven, Michigan and several adjacent townships. The Authority is organized pursuant to Public Act 47, of the Public Act 5 of 1945. A significant portion of the Hospital's receivables relates to contractual arrangements with Medicare, Medicaid and Blue Cross programs.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements.

Enterprise Fund Accounting - The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

Assets Limited as to Use - Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and current projects in progress, over which the Board retains control and may at its discretion subsequently use for other purposes.

Investments - Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

Property and Equipment - Property and equipment are recorded at cost. Donations of property and equipment are recorded at fair market value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Compensated Absences - Compensated absences are charged to operations when they are earned. Unused benefits are recorded in accrued liabilities on the financial statements.

Net Assets - Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external of the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net assets* are remaining net assets that do not meet the definition of the other two categories of net assets. Included in the unrestricted net assets reported at December 31, 2004 and 2003, respectively, \$11,177,421 and \$13,693,591 has been designated by the Hospital's board of Trustees for future capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined (Note 7).

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care was less than 1% of total services provided for the years ended June 30, 2004 and 2003.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Operating Revenues and Expenses - The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating activities, including investment income and contributions received for purposes other than capital asset acquisition, and interest expense, are reported as nonoperating revenue and expense.

Property Tax Revenue - Property taxes that are both measurable and available for use to finance operations are recorded as nonoperating revenue when earned. Property taxes are levied on December 1 and are intended to finance the Authority's activities of the same fiscal year. Amounts levied are based on assessed property values as of the preceding July 1.

Reclassifications - Certain 2003 balances have been reclassified to conform with 2004 presentations.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments

The Hospital's deposits and investments are included in the balance sheet under the following classifications:

	Cash and Cash Equivalents	Assets Limited As To Use	Total
2004			
Deposits	\$ 2,627,820	\$ 967,191	\$ 3,595,011
Investments	-	11,177,421	11,177,421
Petty cash and cash on hand	630	-	630
Total	<u>\$ 2,628,450</u>	<u>\$ 12,144,612</u>	<u>\$ 14,773,062</u>
2003			
Deposits	\$ 912,932	\$ 170,170	\$ 1,083,102
Investments	-	13,693,591	13,693,591
Petty cash and cash on hand	630	-	630
Total	<u>\$ 913,562</u>	<u>\$ 13,863,761</u>	<u>\$ 14,777,323</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,040,953 for 2004 and \$1,653,302 for 2003. Of those amounts, \$100,000 each year was covered by federal depository insurance and \$3,940,953 and \$1,553,302 was uninsured and uncollateralized for the years ended June 30, 2004 and 2003, respectively. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Hospital evaluates each financial institution it deposits Hospital funds with and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The Hospital is authorized under the laws of the State of Michigan to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Hospital's investments, for the general and restricted funds, are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004 and 2003.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

Risk Category 1 includes those investments that meet any one of the following criteria; insured, registered, or, held by the Hospital or its agent. Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by the counterparty or the counterparty's trust department but not in the Hospital's name.

	2004			
	Risk Category			
	1	2	3	Carrying Amount
U.S. government securities	\$ -	\$ 6,123,127	\$ -	\$ 6,123,127
Corporate stock	-	905,380	-	905,380
Corporate bonds	-	1,706,468	-	1,706,468
	<u>\$ -</u>	<u>\$ 8,734,975</u>	<u>\$ -</u>	8,734,975
Mutual funds				1,685,090
Bank cash management funds				<u>757,356</u>
Total investments				\$ 11,177,421

	2003			
	Risk Category			
	1	2	3	Carrying Amount
U.S. government securities	\$ -	\$ 8,011,560	\$ -	\$ 8,011,560
Corporate stock	-	897,122	-	897,122
Corporate bonds	-	1,937,961	-	1,937,961
	<u>\$ -</u>	<u>\$ 10,846,643</u>	<u>\$ -</u>	10,846,643
Mutual funds				1,112,224
Bank cash management funds				<u>1,734,724</u>
Total investments				\$ 13,693,591

The mutual funds and bank cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

The mutual funds are registered with the SEC and are not included in cash and cash equivalents. The bank cash management funds are regulated by the Michigan Banking Act and are included in cash and cash equivalents.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Assets Limited as to Use

The details of assets limited as to use are as follows:

	2004	2003
By Board - funded depreciation	\$ 11,177,421	\$ 13,693,591
By Bond Indenture:		
Project fund	967,191	-
Bond and interest redemption fund	-	70,170
Debt service reserve fund	<u>-</u>	<u>100,000</u>
Total assets limited as to use	12,144,612	13,863,761
Less current portion	<u>967,191</u>	<u>70,170</u>
Noncurrent portion	<u>\$ 11,177,421</u>	<u>\$ 13,793,591</u>

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Accounts Receivable

The detail of accounts receivable is presented below:

	2004	2003
Patient accounts receivable	\$ 10,505,784	\$ 8,641,799
Less:		
Allowance for uncollectible accounts	(2,500,000)	(2,000,000)
Allowance for contractual adjustments and interim payment advances	<u>(5,600,000)</u>	<u>(4,570,000)</u>
Patient accounts receivable, net	<u>\$ 2,405,784</u>	<u>\$ 2,071,799</u>

The Hospital is located in South Haven, Michigan. The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of receivables from patients and third party payors is as follows:

	2004	2003
Medicare	18%	23%
Medicaid	24%	23%
Blue Cross	10%	14%
Other commercial payors	19%	18%
Patients - self pay	<u>29%</u>	<u>22%</u>
Total	<u>100%</u>	<u>100%</u>

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	2003	Additions	Retirements	2004	Depreciable Life-Years
Land and improvements	\$ 632,181	\$ 250,266	\$ -	\$ 882,447	3-25
Buildings and improvements	12,853,374	2,541,854	-	15,395,228	10-40
Furniture, fixtures, and equipment	8,855,529	1,360,460	313,297	9,902,692	6-20
Construction in progress	1,158,961	2,962,315	-	4,121,276	
Total	23,500,045	\$ 7,114,895	\$ 313,297	30,301,643	
Less accumulated depreciation and amortization:					
Land and improvements	253,372	\$ 22,144	\$ -	275,516	
Buildings and improvements	8,148,973	598,524	-	8,747,497	
Furniture, fixtures, and equipment	5,597,617	1,052,055	270,421	6,379,251	
Total	13,999,962	\$ 1,672,723	\$ 270,421	15,402,264	
Net Carrying Amount	\$ 9,500,083			\$ 14,899,379	

Capital asset activity for the year ended June 30, 2003 was as follows:

	2002	Additions	Retirements	2003	Depreciable Life-Years
Land and improvements	\$ 632,181	\$ -	\$ -	\$ 632,181	3-25
Buildings and improvements	12,631,235	351,809	129,670	12,853,374	10-40
Furniture, fixtures, and equipment	7,587,457	1,549,436	281,364	8,855,529	6-20
Construction in progress	400,989	757,972	-	1,158,961	
Total	21,251,862	\$ 2,659,217	\$ 411,034	23,500,045	
Less accumulated depreciation and amortization:					
Land and improvements	231,800	\$ 21,572	\$ -	253,372	
Buildings and improvements	7,992,057	497,995	341,079	8,148,973	
Furniture, fixtures, and equipment	4,723,607	874,010	-	5,597,617	
Total	12,947,464	\$ 1,393,577	\$ 341,079	13,999,962	
Net Carrying Amount	\$ 8,304,398			\$ 9,500,083	

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Capital Assets (Continued)

Total depreciation expense, including amortization of capital leases, for the years ended June 30, consists of the following:

	2004	2003
Included in operating expenses	\$ 1,636,723	\$ 1,357,577
Included in nonoperating expenses	36,000	36,000
Total	\$ 1,672,723	\$ 1,393,577

The Hospital has an active construction project at year end. The project includes the Shoreline Women's Center. At year end, the Hospital's commitment with contractors to complete was \$1,209,918.

Note 6 - Accrued Liabilities

The details of accrued liabilities are as follows:

	2004	2003
Payroll and related amounts	\$ 695,811	\$ 478,130
Compensated absences	398,286	403,587
Professional liability claims (Note 9)	100,000	68,000
Self insurance liability (Note 9)	225,000	225,000
Interest	115,020	17,706
Other	55,443	82,710
Total	\$ 1,589,560	\$ 1,275,133

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 7 - Cost Report Settlements

Approximately 77 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid and Blue Cross of Michigan programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement is as follows:

Medicare - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon an established fee-for-service methodology.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement methodology. Rural health clinic services are paid based upon a limited cost reimbursement methodology. All other outpatient services are paid based on an established fee-for-service methodology.

Blue Cross - Under an agreement with Blue Cross, the Hospital is paid based on a cost-plus-reimbursement methodology.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 8 - Long-term Debt

Long-term debt consists of the following:

	2003	Additions	Reductions	2004	Current Portion
Farmers Home Administration Loan	\$ 525,000	\$ -	\$ 525,000	\$ -	\$ -
Bonds payable - Series 1986	318,801	-	318,801	-	-
Bonds payable - Series 1998	1,550,000	-	1,550,000	-	-
Bonds payable - Series 2004	-	7,100,000	-	7,100,000	473,333
Total	<u>\$ 2,393,801</u>	<u>\$ 7,100,000</u>	<u>\$ 2,393,801</u>	<u>\$ 7,100,000</u>	<u>\$ 473,333</u>

	2002	Additions	Reductions	2003	Current Portion
Farmers Home Administration Loan	\$ 685,000	\$ -	\$ 160,000	\$ 525,000	\$ 165,000
Bonds payable - Series 1986	415,301	-	96,500	318,801	103,600
Bonds payable - Series 1998	1,650,000	-	100,000	1,550,000	100,000
Total	<u>\$ 2,750,301</u>	<u>\$ -</u>	<u>\$ 356,500</u>	<u>\$ 2,393,801</u>	<u>\$ 368,600</u>

The Farmers Home Administration Loan bears interest at 5% and was payable semiannually. The loan was secured by a lien on the authorized property tax levy and other net revenue of the Authority. The loan was paid off in 2004.

Bonds payable - Series 1986, consisted of South Haven Community Hospital Authority revenue refunding bonds issued to provide funds to construct and equip a medical office building. The bonds bear interest at 3.88% and were payable in monthly amounts of approximately \$8,500. The revenue bonds were secured by the Authority's net revenue. The bonds also contained various other requirements including reserve fund payments and maintaining specified operating ratios. These bonds were paid off in 2004.

Bonds payable - Series 1998, consisted of South Haven Community Hospital Authority revenue refunding bonds issued to provide funds for the acquisition, construction, renovation, improving and equipping of the Hospital. The bonds bear interest at 5.69% with the principal payable semiannually in amounts ranging from \$50,000 to \$100,000. The revenue bonds were secured by the Authority's net revenue in parity with the liens created by the Series 1986 Bonds described above. These bonds were paid off in 2004.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 8 - Long-term Debt (Continued)

During the 2004 fiscal year, the Hospital issued \$7.1 million of new bonds. Approximately \$2.4 million of the bond proceeds were used to pay off the previous long-term debt and approximately \$4.7 million was used for the renovation project. (See Note 5.) The bonds bear interest ranging from 1.65% to 5.4%. Principal payments of \$473,333 are due each November 1, beginning in 2004 through 2018. Interest payments are due semi-annually on November 1, and May 1 of the same period.

Future debt service on bonds payable over the next five years, as of June 30, 2004 is scheduled to be as follows:

	Bonds	
	Principal	Interest
2005	\$ 473,333	\$ 352,631
2006	473,333	274,888
2007	473,333	263,410
2008	473,333	249,565
2009	473,333	233,827
2010 - 2014	2,366,665	884,067
2015 - 2019	<u>2,366,670</u>	<u>312,403</u>
Totals	<u>\$ 7,100,000</u>	<u>\$ 2,570,791</u>

Total interest expense for the years ended June 30 consists of the following:

	2004	2003
Included in operating expenses	\$ 205,421	\$ 131,880
Included in nonoperating expenses	<u>2,903</u>	<u>4,481</u>
Total	<u>\$ 208,324</u>	<u>\$ 136,361</u>

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 9 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for malpractice and general liability claims, and participates in the Michigan Hospital Association risk pool for claims relating to workers' compensation; the Hospital is self-insured for employee medical claims. Changes in the estimated liability (included in accrued liabilities) for the past two fiscal years were as follows:

	2004	2003
Estimated liability - Beginning of year	\$ 225,000	\$ 163,000
Claims incurred, including changes in estimates	1,032,754	886,647
Claim payments	<u>(1,032,754)</u>	<u>(824,647)</u>
Estimated liability - End of year	<u>\$ 225,000</u>	<u>\$ 225,000</u>

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible towards the costs of litigation or settling any asserted claims. In addition, the Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital has been named a defendant in several malpractice suits. At this time, it is premature to evaluate the likely outcome, amount of settlement, if any, or whether settlements could exceed the insurance coverage. Management intends to vigorously defend these suits and does not expect any unfavorable impact.

South Haven Community Hospital Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 10 - Tax Deferred Annuity Retirement Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the plan, the Authority contributes amounts matching employees' contributions up to 5% of base pay for participating employees. In accordance with these requirements, the Authority contributed \$236,338 during the current year, and employees contributed \$480,230. For the year ended June 30, 2003, the Authority contributed \$234,945 and employees contributed \$414,537.

Note 11 - Nonoperating Income

The details of nonoperating income are shown below:

	2004	2003
Income on investments limited as to use:		
By Board for funded depreciation	\$ 484,467	\$ 569,082
By bond indenture	833	5,198
Net increase (decrease) in fair value of investments	(284,764)	200,976
Unrestricted investment income	<u>9,894</u>	<u>5,714</u>
Total investment income	210,430	780,970
Medical office building - net loss	(21,131)	(33,088)
Disposal of equipment - net loss	(43,256)	(67,757)
Donations	31,850	21,815
Tax levy	316,145	301,530
Interest expense	(205,421)	(131,880)
Other	(46,738)	2,966
Total nonoperating income, net	<u>\$ 241,879</u>	<u>\$ 874,556</u>



Finance Committee
South Haven Community Hospital

We have audited the financial statements of South Haven Community Hospital for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. During our audit, we had the opportunity to observe the Hospital's procedures for financial reporting and the accounting system. In that process, we made a few observations that we feel should be communicated to you. We have also summarized some additional areas for Management to consider.

Our observations, comments, and recommendations are enclosed in the following exhibits:

<u>Title</u>	<u>Exhibit</u>
Accounts Receivable	A
New Computer System	B

Thank you for the opportunity to be of service to the Hospital. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Plante & Moran, PLLC

August 13, 2004



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Exhibit A

Accounts Receivable

- An area of constant monitoring and vulnerability for any provider of healthcare services is revenue and accounts receivable. During the audit of the financial statements for the year ended June 30, 2004, we noted in our analysis the days in accounts receivable, calculated on an annualized basis, had crept back up to 90 days from last year's 80 day calculation. It was subsequently noted the accounts receivable increased approximately \$1.0 million from June 30, 2004 to July 31, 2004. We recommend close monitoring of the aging categories to ensure collectability of balances along with further examination of collection procedures to ensure all accounts are being billed properly and on a timely basis.
- Secondly, based on the Hospital Only Aging of Accounts Receivable (With Unbilled) report provided to us at the time of the audit, there appears to be significant credit balances, particularly in the over 365 days category, since many of the balances represented have a net credit balance. This should be a focus of the Hospital to return any overpayments to the proper source, application of payments to correct balances, and a general clean-up and monitoring of credit balances on an ongoing basis.

Exhibit B

New Computer System

- As with any conversion of computer systems, there never seems to be the right time, nor does it take place without a hitch. As supported by interviews with various department heads, their involvement with the budget process as well as the monthly financial monitoring necessitates their need for reports on a timely basis. With the implementation of a new system, we recommend continued education of staff involved in the budget process as to their responsibilities and accountability to the budget process to ensure a good flow of information to and from management who are ultimately responsible for the presentation of financial information to the Board and other users of the Hospital's financial information.